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FORM 41 (Rev. 7-76)

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THE WHITE HOUSE  
WASHINGTON

82-5103

# CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 5/19/82 NUMBER: 068970 CA DUE BY: -----  
SUBJECT: Cabinet Councils - MINUTES

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Harper	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Gray	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
UN	<input type="checkbox"/>	<input type="checkbox"/>			
USTR	<input type="checkbox"/>	<input type="checkbox"/>			
CEA	<input type="checkbox"/>	<input type="checkbox"/>	CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Attached are the minutes of the following meetings:

Cabinet Council on Economic Affairs - 5/3/82  
Cabinet Council on Economic Affairs - 5/5/82  
" " " " " - 5/18/82 (8:45 am)  
" " " " " - 5/18/82 (9:30 am)

RETURN TO:

☐ Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs  
456-2823

☒ Becky Norton Dunlop  
Director, Office of  
Cabinet Affairs  
456-2800

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 3, 1982  
8:45 a.m.  
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Donovan, Brock, Weidenbaum, Harper, Porter, Darman, Fuller, Gergen, Lyng, Sprinkel, Ikle, Leland, Hormats, Kudlow, Cribb, Gray, Ernst, Nau, Platt, Hemel, Bledsoe, Baroody, Thompson, Sittman, and Ms. Dunlop

1. The Versailles Summit

The Council reviewed a series of papers regarding the Versailles Economic Summit prepared by the Departments of State and Treasury and the Office of the U.S. Trade Representative.

Secretary Regan briefly reviewed the ongoing work among senior U.S. officials and the President in preparing for the summit, the role of summits in enabling heads of state of the industrial democracies to exchange views and focus on mutual long-term economic problems, the need to avoid resorting to protectionism in periods of economic difficulty and adjustment, and the need to develop a unified approach with our allies on conducting trade with the Eastern Bloc nations.

Mr. Hormats then reported on the preparatory meeting for the Versailles Summit recently held at Ramboulliet. He reviewed the international problems discussed at the Ramboulliet meeting, the stresses that the recent recession has imposed on the international trading system, the need to develop formal rules and arrangements for strengthening the General Agreement on Tariffs and Trade (GATT), and an expected French initiative at Versailles to raise the implications of technology on western economies as a major subject for discussion.

Mr. Sprinkel presented his view of the Ramboulliet session. He discussed the assurance that the U.S. representatives had given at the meeting regarding America's willingness to consult with its allies in coordinating economic policies and the emphasis placed at the meeting by the French on the need to reduce unemployment. He also discussed a Japanese request, received through diplomatic channels, soliciting U.S. cooperation in intervening to raise the value of the yen on world currency markets and the general effectiveness of governmental intervention in altering foreign exchange values.

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Minutes  
May 3, 1982  
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Mr. Weidenbaum reported on his participation in the recent OECD meetings in Paris. He discussed European attitudes towards high U.S. interest rates and projected budget deficits, international pressures on the U.S. to adopt a more expansionary monetary policy, and the sympathetic tone that he believed the U.S. should adopt at Versailles in reacting to other nations' economic problems. He also discussed the international political consequences of Japan's import barriers, attitudes of Western European trade unions towards governmental allocation of capital for investment, and French policies towards reducing employment in nationalized industries.

Mr. Hormats reviewed two papers prepared for the summit, one on East-West economic relations and the other on trade objectives and strategy. His discussion on East-West economic relations centered on the impact of recent developments in Poland on western nations' trade policies toward the Eastern Bloc, controls on western credits to the East and the need to establish effective mechanisms for measuring the volume of credits provided, and the desirability of discussing East-West issues with several of our allies prior to the beginning of the summit. His discussion of trade objectives and strategy focused on the agreement among our allies that the summit should address GATT rules and mechanisms and the timeliness of the summit in view of growing pressures on the world trading system.

The Council's discussion of the issues pertaining to the Versailles Economic Summit centered on the operational meaning of international economic coordination, the implications of recent Japanese gold sales, the importance of conveying an appropriate response to European economic difficulties, the role of the service sector in new job creation in the U.S. and elsewhere, the progress of negotiations regarding the rescheduling of Polish debt, and the Europeans' perceptions of the effects of the division of authority between the President and the Congress on achieving of U.S. economic objectives.

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 5, 1982  
8:45 a.m.  
Roosevelt Room

Attendees: Messrs. Block, Donovan, Brock, Weidenbaum, Harper, Porter, Dederick, Naylor, Trent, Hormats, Leland, Gray, Bledsoe, Hemel, Platt, Nau and Ms. Dunlop

1. Versailles Summit

The Council reviewed preparations for the Versailles Summit. Mr. Hormats briefly discussed the major issues that were likely to arise at the Summit with respect to trade and East-West economic relations including building on the results of COCOM, sanctions for Poland, and export credits to the Eastern bloc.

He also discussed the French technology paper and the current status of the global negotiations issue. He indicated that the last paper from the Group of 77 nations was unacceptable and did not provide adequate safeguards for existing institutions or specialized agencies.

The discussions focused on the issue of countertrade and the difficulties with attempting to curtail it, the impact of the U.S. economy on the international economy, and the subject of exchange rate intervention. Much discussion focused on the tone and general approach that the U.S. would take at the Summit and on the need to clearly delineate the trade-offs involved in achieving the major U.S. objectives.

Mr. Hormats agreed to prepare two papers for Cabinet Council consideration. The first would briefly outline the general tone that should characterize the U.S. approach at the Summit. The second would briefly outline the fundamental U.S. objectives at the Summit, the specific agreements or understandings that we want to achieve in realizing those objectives, and the trade-offs involved in achieving those objectives.

2. Economic and Financial Outlook in the Agricultural Sector

The Council reviewed a paper, prepared by the Department of Agriculture, summarizing recent economic and financial developments in the farm sector.

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Mr. Naylor's presentation focused on the recent deterioration in net farm earnings and the effects of this decline on the U.S. agricultural economy. His discussion centered on the role of the appreciation of the dollar on world currency markets in reducing U.S. farm export earnings, the impacts of high interest rates on the costs of credit to farmers and the willingness of commodity marketing firms to hold high inventory levels, the overall debt position of farmers, recent changes in agricultural land prices, modifications in commercial banking practices designed to avoid farm foreclosures, and the expected time lag between the beginning of a general economic recovery and the beginning of a recovery for the agricultural economy specifically.

The Council's discussion centered on the differential impacts of the agricultural recession on farmers depending on their location and the types of commodities they produce, the degree of public concern warranted by declines in farm land values, the effects of the previous economic emergency program on farms in the South, the problems created by federally subsidized farm capital programs, recent Congressional developments regarding agricultural assistance legislation, and the need for the administration to emphasize the magnitude of financial assistance already provided to farmers by the Federal Government.

3. Latin American Debt Situation

The Council reviewed a paper summarizing debt conditions in Latin America, prepared by the Department of the Treasury.

Mr. Leland's presentation focused on the growing difficulties faced by Argentina and Mexico in meeting payments of interest and principal on their external debt. Mr. Leland's discussion of the Argentinian situation centered on the impact of the Falkland Islands dispute on Argentina's credit worthiness, the general deterioration of Argentina's economic situation, the realization on the part of Argentina's financial officials that they need to fulfill their debt obligations in order to retain their nation's position as a viable participant in the international financial system, and a possible need to reschedule Argentina's foreign debts. His discussion of the Mexican situation centered on the economic effects of the most recent devaluation of the peso, the political constraints on Mexico's leadership imposed by upcoming elections in July, and the need for a fairly austere domestic program in Mexico to restore economic health.



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The Council's discussion centered on the procedures used to regulate U.S. bank lending to foreign nations and regulatory problems stemming from conventional definitions of what constitutes a "single borrower" for commercial lending purposes.

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 18, 1982  
8:45 a.m.  
Roosevelt Room

Attendees: The Vice President, Messrs. Regan, Donovan, Schweiker, Edwards, Brock, Weidenbaum, Harper, Porter, Lyng, Unger, Kudlow, Jordan, Speakes, Bailey, Gray, Bledsoe, Cicconi, Garrett, and Hemel, and Ms. Dunlop

1. Drysdale Corporation and the Financial Markets

Secretary Regan spoke briefly about recent developments concerning a possible default by the Drysdale Corporation and the possible implications for the government bond market. The Council discussed the short-term consequences of a securities firm failure on the bond markets and the impacts of such a failure on commercial banks and other lenders.

2. Polish Default and the Urgent Supplemental Appropriations Bill

Deputy Secretary of Agriculture Lyng reported briefly on developments in the Congress regarding a possible amendment to the Urgent Supplemental Appropriations Bill which would prohibit payments of federal guarantees on loans to Poland unless Poland was declared in default or the President certified to the Congress that such payments were in the national security interest of the United States. The Council discussed the likelihood that the Congress would vote in favor of the amendment as well as the reasons why the administration opposes declaring Poland in default.

3. Review of the Economic Outlook

The Council considered a paper reviewing recent economic developments and the current economic outlook prepared by the Office of Management and Budget in coordination with the Department of the Treasury and the Council of Economic Advisers.

Mr. Kudlow's presentation focused on the prospects for an economic recovery beginning during the next several months and the likelihood that the recovery will prove sustainable into 1983 and beyond.

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Mr. Kudlow's reasons for predicting the beginning of a recovery in the near future included the impact of lower inflation on consumer purchasing power, the high rate of real final sales over the last several months in comparison to earlier recessions, the rapid growth of M-1 over the last six months, the effect of disinflation on tax revenues and the economic stimulation provided by the 1981 Economic Recovery Tax Act, the effect of lower energy prices on the transfer of U.S. wealth to foreign oil producers, the decline of interest rates of varying maturities since their February peaks, recent increases in new durable goods orders, the decline in wage rate growth in 1982 in comparison with previous years, and recent upturns in automobile sales and housing starts.

Mr. Kudlow supported his warning that a sustainable recovery may prove difficult to achieve by citing weaknesses in the financial sector of the economy, including the recent decline in after-tax corporate profits, the deterioration of corporate liquidity, the persistence of high interest rates, the excessive reliance of corporations on short-term bank loans, and the expansion of federal borrowing needs both on-and-off budget.

Mr. Kudlow also discussed in considerable detail the impact of inventory liquidations on real GNP over the last eight months and the most recent OMB estimate of the fiscal year 1982 budget deficit.

The Council's discussion centered on the growth of the money supply over the last several months, European misperceptions regarding the tightness of U.S. monetary policy, the similarity between the most recent OMB estimate for the 1982 deficit and previous administration deficit forecasts, estimates from outside the administration that the 1982 deficit would fall below official forecasts, and the difficulties of economic forecasting during periods which are economic "turning points."

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 18, 1982  
9:30 a.m.  
Cabinet Room

Attendees: The President, the Vice President, Messrs. Regan, Smith, Watt, Donovan, Schwieker, Lewis, Edwards, Meese, Brock, Baker, Stockman, Weidenbaum, Harper, Porter, Lyng, Unger, Ikle, Darman, Duberstein, Fuller, Gergen, Speakes, Williamson, Jenkins, Cribb, Gray, Cicconi, Chapoton, Fowler, and Garrett, and Ms. Dunlop.

1. Transportation User Fees

The Council reviewed a paper prepared by the Department of Transportation on "User Fees to Protect the Nation's Highway and Transit Investments".

Secretary Lewis reviewed the condition of the nation's highway system noting that 4,000 miles or 10 percent of the interstate system needs immediate repairs and that 26,000 miles of that system will require repairs by 1995. He estimated that \$5 billion would be needed for immediate repairs and an estimated \$33 billion would be needed through 1995. He also noted that the Department of Transportation estimated that \$60 billion would be required through 1995 to keep the primary road system in the United States at the condition it was in 1978.

Secretary Lewis also described the serious deterioration of the nation's bridges. Forty percent of the nation's bridges are over 40 years old; over 60,000 Federal Aid System bridges are considered deficient and it will require approximately \$25 billion to replace and rehabilitate on-system deficient bridges.

He noted the trend since 1970 of increasing construction costs and the declining purchasing power of the highway trust fund as well as the significant rise in vehicle miles traveled and the deterioration of the highway system during the 1970s. In proposing a 5-cent per gallon increase user fee, he estimated that this would cost the average motorist approximately \$30 per year.

He emphasized that this proposal was not a budget balancer but that due to spending lags it would have a near-term positive benefit for the budget. He also noted that this

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proposal needed to be intergrated with any other energy tax proposals the administration might make. He noted that the Department of Transportation proposal was consistent with the President's federalism objectives, with the administration's philosophy on user fees, and that it enjoyed considerable Congressional support and the support of several outside groups. He briefly reviewed the transportation user fees that the administration had already proposed for the Coast Guard, the Federal Aviation Administration, and for inland waterways noting that this proposal would simply become part of that larger package.

The discussion focused on the need to address the geniune long-term problems facing the nation's highway system, the relationship of this proposal to the current budget negotiations the administration is engaged in with the Congress, the magnitude of the near-term effect on the deficit, the adequacy of the highway trust fund to meet immediate needs, and the need to examine carefully the respective responsibilities of the federal government and state and local governments in providing for the nation's highways.

The Council also discussed the portion of the receipts from the user fee that would provide for local mass transit, the impact of the proposal on the deficit for the years 1983 through 1986, and the impact of the program on jobs.

#### Decision

The President decided that the administration would not support, at this time, an increase in highway user fees. He directed that the Department of Transportation proposal be reviewed this fall in conjunction with developing the Administration 1983 legislative program and FY 1984 budget. He indicated that this review should include consideration of the appropriate role of the federal government and state and local governments in providing funding for the nation's road system.